

2007 LGBT
Economic Development Summit

504 Financing for Owner-Occupied Commercial Property

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November 3, 2007

Who is Business Finance Group?

- Private, non-profit lender
- Certified by the US Small Business Administration
- Provide 504 financing in Virginia; Maryland; Washington, DC; and panhandle of West Virginia
- Largest company in the Mid-Atlantic region providing 504 loans.

What is 504?

Economic Development Financing Tool

- ✓ Finances fixed assets for healthy, expanding businesses
- ✓ Low down payment to preserve cash to fund growth

Community Benefits

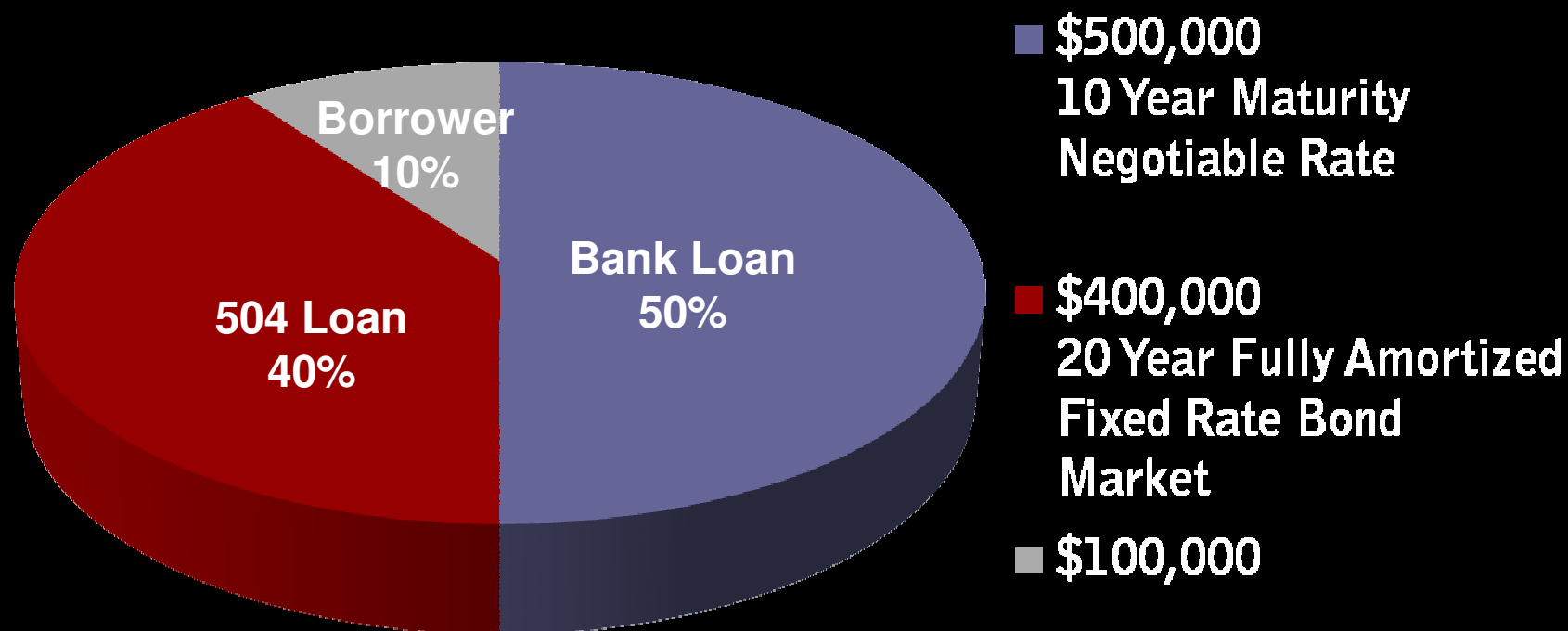
- ✓ Jobs Created or Retained
- ✓ Increased Tax Base

Compared to SBA 7(a)

- ✓ 7(a) is for credit enhancement to loans that otherwise

~~are not eligible for conventional bank financing~~

Typical 504 Structure \$1,000,000



Interest Rate

6.45%

- All-In Fixed Rate for 20 years
- October 2007 Bond Sale



How much paperwork is needed for a 504 loan?

Essentially the same information as any commercial lender:

- ✓ Financial information on business
- ✓ Financial information on the business owners
- ✓ Projections if start-up business
- ✓ Brief History/description of business and owners' resumes
- ✓ Purchase Contract, construction/renovation estimates

How long does it take?

- ✓ At BFG, 10 days for our approval; 5 days for SBA approval
- ✓ 2 days for pre-qualification (existing businesses only)

Application/Checklist is available at: www.businessfinancegroup.org

What can be financed with 504?

■ Real estate (owner occupied)

- ✓ Existing Buildings
- ✓ Additions
- ✓ Major Renovations
- ✓ Land/Building Construction

■ Soft Costs

- ✓ Appraisal & Environmental
- ✓ Title & Recording Taxes
- ✓ Closing Costs, bank points

■ Machinery and equipment

- ✓ Office furniture & equipment
- ✓ Printing Press or Manufacturing Equipment



Ineligible uses of 504

- ✗ Working Capital
- ✗ Inventory
- ✗ Refinancing
- ✗ Franchise Fees
- ✗ Autos, Trucks, Planes



504 finances a lot of office condos!

What are the 504 requirements?

Occupancy

- ✓ Existing Building = 51%
- ✓ New Construction = 60%

Down Payment

- ✓ Typical = 10%
- ✓ Start-up = 15%
- ✓ Special Use = 15%
- ✓ Both = 20%

Project Size

- ✓ Min = \$200,000
- ✓ Max = ????
- ✓ Max 504 Portion
 - \$1,500,000 normally
 - \$2,000,000 public policy
 - \$4,000,000 small manufacturer
- ✓ Bank Loan can exceed 50%
- ✓ Our Max Project = \$16 Million

Which businesses are eligible for 504?

- **For-Profit**
- **Privately Held**



- **"Small Business"**
 - ✓ Net Worth < \$7.5 million
 - ✓ After Tax Income < \$2.5 million (average)



What are we looking for in evaluating your loan request?

Existing Business

- ✓ Cash flow that will repay the debt
- ✓ Good personal credit
- ✓ Experienced management

Start-up Business

- ✓ Strong, experienced management
- ✓ Well-thought out business plan
- ✓ Reasonable projections that demonstrate adequate cash flow coverage
- ✓ Adequate working capital
- ✓ Good personal credit

Free assistance from Small Business Development Centers, e-BIC Center, SCORE Chapter

504 Advantages – A Recap

- Up to 90% financing
- Financing can include hard and soft costs
- Low 50% Loan to Value allows bank partner to be competitive on rate / fees
- 504 rate is 20 year fixed, below market
- Process is quick & easy with Business Finance Group

504 Loan vs. Conventional Bank Loan

Project:

Land/Bldg	\$500,000
Renovation	
425,000	
Equipment	
50,000	
Soft Costs:	
Recording taxes	
15,000	
Title Charges	3,500
Appraisal	3,500
Environmental	

\$220,000 versus \$100,000

Financing Sources:

Bank	\$500,000	50%
504	400,000	40%
Borrower	100,000	10%
TOTAL	\$1,000,000	
100%		

If conventional bank financing:
\$195,000 – 20% of hard
costs

+ \$25,000 – soft costs
\$220,000 – total down
payment

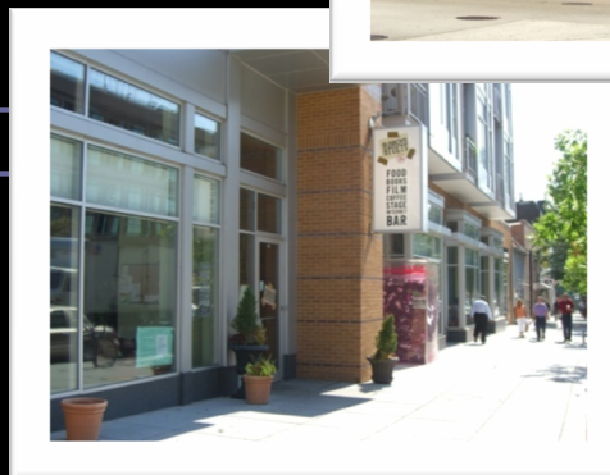
Sample of businesses assisted

- Spectrum Home Health
- **Idle Time Books**
- Bennett Beauty Institute
- Battle's Book Store
- Lyon Bakery
- Yellow Cab Company
- M&M Appliance
- **Yes! Organic Market**

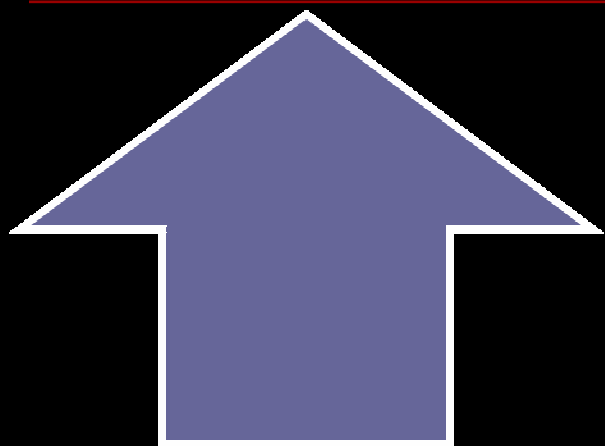


Sample of businesses assisted

- **Old Town Trolley**
- Café Atlántico
- The Black Cat
- The Lucky Bar
- Schneider's Liquors
- **Bus Boys & Poets**
- Debonair Cleaners
- Soul Salon & Day Spa



Questions and Contact Information

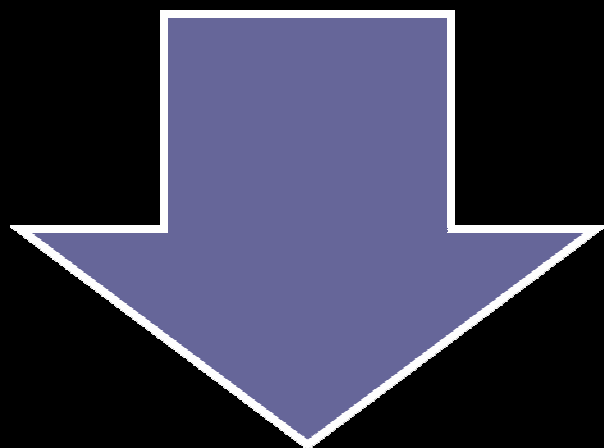


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**For more info and our loan
application go to:**

www.businessfinancegroup.org

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Small Business Financing

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Small Business Financing Options

- Money is the mother's milk of any startup. Access to capital often determines whether a fledgling enterprise succeeds or dies in infancy. There are several common types of business financing options available to young companies.

Small Business Financing Options

■ Angel Investors and Venture Capital

Investors are an excellent source of early-stage financing. They are often willing to tread where there is too much risk for banks and not enough profit potential for venture capitalists. Angels will invest for a longer time-horizon than will other investors — up to five years or more. They may also invest smaller amounts — \$1 million or less

Financing...

■ Commercial Banks

Commercial loans are attractive because they don't require entrepreneurs to turn over equity or company control. But servicing debt can drain a young company with limited cash flow. New companies may not even have access to bank loans if they have no operating history and no collateral to secure the loan.

Financing...

- **Small Business Administration**

SBA loan guarantees can mean the difference between getting a bank loan and being entirely shut out. The federal agency loans no money directly. Instead, it guarantees 75 percent of individual loans made by private lenders, up to \$750,000. But a business must first show that it cannot obtain conventional financing at reasonable terms. Business owners must personally guarantee SBA loans and must also show cash flows sufficient to repay the loan. Most commercial banks offer information about SBA loan

Financing...

■ Home Equity Loans

Home equity loans are a cost-effective alternative to other types of loans because they offer some of the best interest rates available. But you may not want to risk your family home to launch your business venture. Before going this route, you should carefully consider the risks involved.

Financing...

■ Credit Cards

Cash advances from credit cards are an easy and quick way to gain access to cash. But as a long-term financing method, they can be expensive — credit card interest rates typically run much more than the one to three percent "over prime" you would likely pay on a bank loan. If you use credit cards, shop for the best interest rate. Introductory "teaser" rates often give you a bargain for up to six months. If you have the time and energy, you can roll over your debt to a new card every six months, taking advantage of a new teaser rate every time

Financing...

- **Equipment Leasing**

Equipment lease financing is an option for many cash-starved businesses. Equipment leases give you access to many types of equipment — computers, copiers, fax machines, cars, and trucks — without tying up your cash or credit lines.

- Doesn't bring in cash, leasing reduces the amount of cash you otherwise have to raise. Leasing generally proves more costly than buying in the long run, but if initial cash flow is an issue for your company, it's definitely something to consider.

Financing...

- **Borrowing from yourself**

If you have a 401(k) plan, you may be able to borrow against the money you have been contributing. About 90 percent of 401(k) plans allow loans. If your plan allows you to borrow against it, you can get a maximum of \$50,000 but not more than 50 percent of the total amount in your account.

Financing...

- **Friends and family**

Borrowing money from friends and relatives makes many people uncomfortable, but it's a sacrifice some are willing to make to start their new businesses. If you have friends and family willing to help you, approach them as you would any potential investor. Present a professional loan request with supporting materials such as a business plan and earnings projections, just as you would to a commercial lender. If you go forward with a loan from a friend or family member, draft a contract that outlines the terms and conditions of the loan and the obligations of both parties.

Cash is King!!!

- Cash flow management is a vital element to business management and planning.
- Most financial institution sources or potential funding sources look for strong cash flow management potential in any business.

Cash Flow Management

- Cash flow isn't the same as profit and loss. Believe it or not, a company can be profitable while experiencing cash flow problems that drive it to bankruptcy.
- Profit is an accounting term, which includes non-cash items and estimates. Cash flow is a less forgiving number with a harder edge that factors in payments and expenditures.

Cash Flow Management...

- Cash is not the balance in your business bank account. Your cash balance in your accounting books needs to cover checks you have issued which have not yet been paid by your bank. You may have customer payments in hand, checks and bank drafts, which have not yet been deposited in your bank. That's cash, too, even though you can't bank on it.

Controlling Your Cash Flow

- **Monitoring Receivables**

Monitoring customer accounts receivable and collecting them on a timely basis is the key element of controlling cash flow.

- It all starts with **sound credit-granting policies.**

Controlling Your Cash Flow

- **Inventory Management**

Good inventory management is also an important part of managing cash flow. You need to have a sufficient quantity and variety of goods in stock so you can meet customer demands on a timely basis.

- On the other hand, you don't want to invest too much in goods which don't sell well, or are at risk of becoming obsolete by newer models.

Controlling Your Cash Flow

■ Credit Policies

The kind of credit policies you have will vary depending upon the nature and size of your business. Many B-to-C (business-to-consumer) businesses do not extend credit. Sales are by cash or debit/credit card only. This clearly simplifies the collection process, which should just need to deal with isolated problems, such as a disputed credit card chargeback.

Controlling Your Cash Flow

- **Cash-flow management isn't quite the same as managing a budget.** While your cash flow projection should be reflected in your business budget, the budget for a company typically includes non-cash items, such as depreciation of fixed assets.

Cash Flow Analysis

- **Accounts receivable/payable — aging**
- **Accounts receivable/payable — days sales outstanding**
- **Inventory — slow-moving stock**
- **Inventory — stock-out rate**
- **Accruals – wages, taxes outstanding**

WACIF Products and Services

- Community Development as a Whole
 - Small Business
 - SBA Loans and Technical Assistance
 - WACIF Seminars and One-on-One TA
 - Child Care
 - Affordable Housing

Questions and Contact Information

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